

Marico

Rs54.8

OUTPERFORMER

RESULT NOTE

Mkt Cap: Rs33.3bn; US\$794m

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Result: FY07

Comment: Fine Tuning!

Last Report: 22 January 2007 (Price Rs56.6; Recommendation: Outperformer)

Key valuation metrics

| (Rs m) | Net Sales | yoy chg (%) | Net profit | EPS (Rs) | yoy chg (%) | EV/E (x) | PER (x) |
|--------|-----------|-------------|------------|----------|-------------|----------|---------|
| FY05 | 10,127 | 19.5 | 687 | 1.2 | 18.5 | 36.2 | 46.3 |
| FY06 | 11,439 | 13.0 | 868 | 1.5 | 26.4 | 23.1 | 36.6 |
| FY07 | 15,569 | 36.1 | 1,122 | 1.8 | 23.1 | 15.4 | 29.7 |
| FY08E | 18,010 | 15.7 | 1,657 | 2.7 | 47.7 | 12.7 | 20.1 |
| FY09E | 20,577 | 14.3 | 2,009 | 3.3 | 21.2 | 10.7 | 16.6 |

Source: SSKI Research; Company

Meeting our expectations, Marico recorded a 35% growth in revenues for FY07 at Rs15.5 bn. While domestic operations contributed 21% of the growth, overseas acquisitions contributed 14%. With a product portfolio extending beyond just oil business and lower copra prices for the major part of the year, EBITDA margins have expanded by 100bp in FY07 at 13.6%. PAT (post amortization of brands at -Rs250m) has grown by 29% at Rs1.1bn in FY07. However, higher other expenditure (impairment charge of assets in Kaya and start-up expenses in overseas operations) and increasing input prices in Q4FY07 have led to margin contraction of 210bp in Q4FY07.

We believe Marico has the platform for sustainable growth. While its core brands like *Parachute* (13% growth in Q4FY07) and *Saffola* (19% growth in Q4FY07) maintain their growth patterns, new ventures like Kaya Clinic (56% growth yoy) and international operations (sales Rs1.9bn in FY07) add further momentum. Besides these growth propellers, we like Marico's transition to broader health and wellness platform and thereby its appetite to enter newer segments and take inorganic route of growth. As Marico sustains top line growth momentum at over 15% CAGR over the next two years and margin profile getting in sync with its peers in consumer space, Marico is trading at relative attractive valuations of 17.5x FY09E earnings. Maintain Out performer with target price of Rs66.

HIGHLIGHTS OF FY07 RESULTS

□ Growth momentum maintained

Marico has maintained its growth momentum with revenues growing by 35% in FY07 to Rs15.5 bn. On-going businesses contributed 21% of the growth, while domestic and overseas acquisitions contributed 14%. Marico's core brands showed consistent growth in Q4FY07, with *Parachute* growing at 13% while *Saffola* grew at 19%. The overseas business has also contributed to the growth momentum, with Kaya Clinic growing at 56% (at Rs750m) and international brands added Rs1.9 bn to the top-line. 14% of the growth during the year is contributed through series of acquisitions that Marico has done in the recent times – Nihar from HLL and Haircode and Fiancee brands in Egypt.

❑ Margins expand in FY07, but pressure felt in Q4FY07

With Marico's product portfolio expanding from pure oil operations to a broader health and wellness platform, as also copra prices remain low ebb for the first eight to nine months, Marico's EBITDA margin has expanded by 100bp during FY07 at 13.6%. However, Marico has felt the heat of increasing copra prices in Q4FY07 and material cost to sales has moved up by 60bp in Q4FY07 (52%). Margins have also been affected during Q4FY07 on account of 70% increase in other expenditure due to a one-time impairment charge of assets in Kaya and other start-up expenses incurred in overseas operations. Going forward, while the copra prices have begun to firm up, we expect Marico to maintain margins on the back of changing product mix in favour of personal care portfolio.

Margins remain flat

| Cost structure (%) | Q4FY07 | FY07 | Q4FY06 | FY06 |
|---------------------------|--------|------|--------|------|
| Raw material | 49.8 | 48.4 | 45.3 | 48.3 |
| Staff cost | 4.7 | 6.1 | 6.4 | 7.8 |
| Advertising and publicity | 16.7 | 15.5 | 18.5 | 13.8 |
| Other expenditure | 20.6 | 18.7 | 16.6 | 18.1 |
| Operating margin | 10.1 | 13.6 | 12.2 | 12.6 |

Source: SSKI Research, Company

❑ Growth edifices in place

Marico's product portfolio and growth strategy continues to excite us. With a focus on strengthening their core brands like *Parachute* (57% market share in the branded coconut oil market) and *Saffola*, while also promoting the new growth drivers like Kaya Clinics and the international FMCG business, Marico has the platform to maintain growth. Marico continues to introduce new products in different categories like functional foods (*Saffola Atta Mix*), shower gels (*Parachute Advansed* and *Go Get Noticed*), hair loss treatments (*Parachute Therapie*) and soaps (*Parachute Jasmine*) as it transforms itself into a full-fledged FMCG player.

❑ Strong risk appetite

We like the fact that Marico is aggressively targeting inorganic growth opportunities. Besides acquiring *Nihar* in FY06, Marico also acquired businesses in Egypt (*Fiancee and Hair Code*) and Bangladesh in FY07 and the acquisitions contributed close to 14% to the overall growth. Marico's Egyptian operations contributed Rs170m to top line, while the company has captured 58% of the branded coconut oil market in Bangladesh. We expect the company to aggressively pursue inorganic growth in India and overseas.

❑ Pure Consumer play – Maintain Outperformer

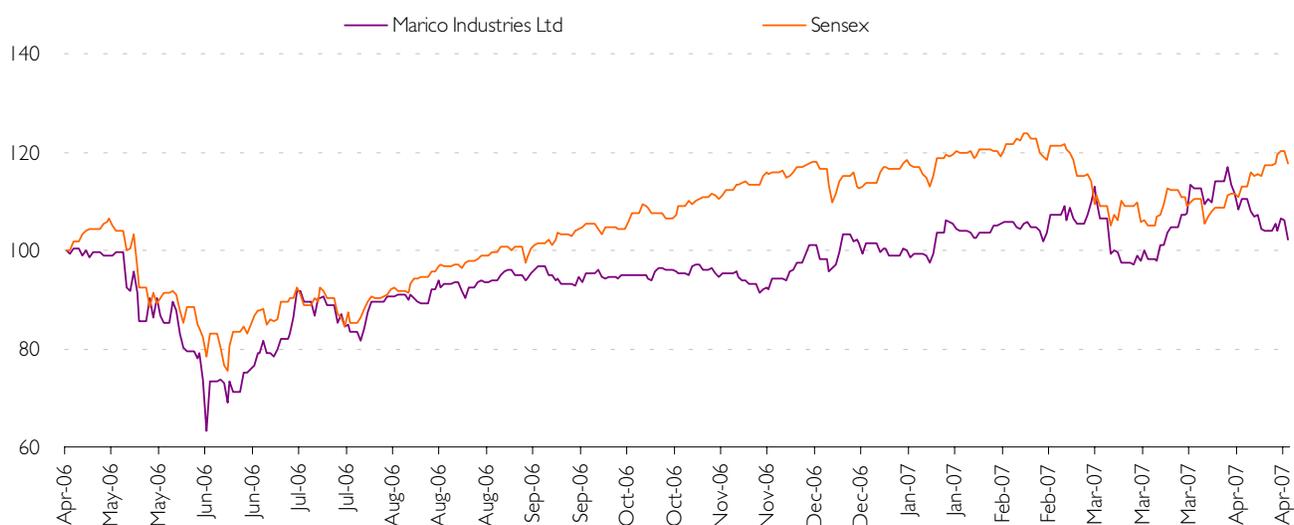
We believe Marico will continue to maintain its growth momentum and the growth propellers are in place. Importantly, Marico is well on its way to becoming a full-fledged FMCG player and we expect margins to be in line with other consumer majors. Maintain Outperformer with a target price of Rs66 based on a 20x FY09E earnings target.

Quarterly Results

| Rs Mn | Q4FY06 | FY06 | Q1FY07 | Q2FY07 | Q3FY07 | Q4FY07 | FY07 | FY08E | FY09E |
|-------------------|--------------|---------------|--------------|--------------|--------------|--------------|---------------|---------------|---------------|
| Net Sales | 2,977 | 11,439 | 3,728 | 3,780 | 4,092 | 3,970 | 15,569 | 18,010 | 20,577 |
| %yoy | 17.3 | 13.0 | 36.6 | 36.4 | 34.7 | 26.6 | 36.1 | 15.7 | 14.3 |
| Operating profit | 364 | 1,443 | 563 | 605 | 551 | 401 | 2,119 | 2,493 | 2,998 |
| EBITDA | 12.2 | 12.6 | 15.1 | 16.0 | 13.5 | 10.1 | 13.6 | 13.8 | 14.6 |
| Net Interest | 23 | 51 | 48 | 57 | 54 | 47 | 206 | 180 | 103 |
| Depreciation | 96 | 448 | 111 | 127 | 168 | 115 | 507 | 307 | 343 |
| Other Income | 2 | 35 | 11 | 1 | 3 | 87 | 102 | 117 | 131 |
| Profit before tax | 247 | 980 | 414 | 422 | 332 | 326 | 1,508 | 2,123 | 2,682 |
| Tax | 3 | 111 | 111 | 116 | 55 | 51 | 385 | 466 | 674 |
| PAT | 244 | 868 | 303 | 306 | 277 | 275 | 1,122 | 1,657 | 2,009 |
| %yoy | 24.5 | 26.4 | 46.0 | 53.4 | 26.4 | 17.3 | 29.2 | 47.7 | 21.2 |

Source: SSKI Research, Company

Relative price performance



SSKI INDIA

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1. Outperformer: More than 10% to Index
2. Neutral: Within 0-10% to Index
3. Underperformer: Less than 10% to Index

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